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FIRST CONSULTATION ON SMALL- AND MEDIUM-SCALE ENTERPRISES INCLUDING CO-OPERATIVES

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PREFACE

The System of Consultations is an instrument through which the United Nations Industrial Development Organization (UNIDO) serves as a forum for developed and developing countries in their contacts and discussions directed towards the industrialization of the latter countries. Participants in the Consultations include government officials, as well as representatives of industry, labour, consumer groups and others, as deemed appropriate by the Government concerned. The System facilitates negotiations among interested parties, at their request, either during or after the Consultation meetings.

Benefits deriving from this activity include the identification of obstacles to industrial development in developing countries; the monitoring of trends in world industry with a view to identifying action-oriented measures for increasing the industrial output of developing countries; and the search for new forms of international industrial co-operation in North-South and South-South relations.

Since the inception of the System[1/] in 1975, Consultations have been held on the following industries and topics: agricultural machinery, building materials, capital goods, fertilizers, fisheries, food processing, industrial financing, iron and steel, leather and leather products, non-ferrous metals, petrochemicals, pharmaceuticals, training of industrial manpower, vegetable oil and fats and wood and wood products. The System brings together sectoral decision-makers to deliberate on and propose concrete measures to accelerate the process of industrialization in developing countries. It has generated many innovations, particularly with respect to technological alternatives, integrated development and contractual arrangements. The many opportunities thus provided have led to the implementation of projects in technical assistance, investment promotion and technology transfer.

The Consultation process, by virtue of its consensual and normative character, has revealed itself to be an efficient vehicle for balancing co-operation. It is eminently suited to assist member countries in the formulation of strategies and policies for industrial development.

The System of Consultations operates under the continuous and close guidance of the Industrial Development Board of UNIDO. In addition to the annual reviews and occasional progress appraisals, the System in 1989 was subjected to an in-depth evaluation which concluded that it was, moreover, providing a major contribution to the development and formulation of UNIDO's own policies and programmes in specific sectors through integration and interaction with the Organization's other main activities.

1/ See Report of the Second General Conference of the United Nations Industrial Development Organization (ID/CONF.3/31), chapter IV, "The Lima Declaration and Plan of Action on Industrial Development and Co-operation", para.66.

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INTRODUCTION

1. The First Consultation on Small- and Medium-Scale Enterprises including Co-operatives was held at Bari, Italy, from 9 to 13 October 1989. The First Consultation was attended by 156 participants from 68 countries and 8 international and other organizations (see annex I).

Background to the First Consultation

2. The Industrial Development Board, at its second session in October 1986, decided to include the First Consultation on Small- and Medium-Scale Enterprises including Co-operatives in the programme of Consultation meetings for the biennium 1988-1989.[1/]

3. In preparation for the First Consultation, three Expert Group Meetings on Small- and Medium-Scale Enterprises including Co-operatives were convened in the Caribbean region (San Juan, Puerto Rico, December 1987), the African region (Harare, Zimbabwe, June 1988), and the Asia and Pacific region (Manila, Philippines, November 1988).[2/]

4. The objectives of the regional Meetings were:

(a) To examine the current situation of the small- and medium-scale enterprise sector in the respective region;

(b) To identify the individual and common constraints;

(c) To draw conclusions and recommend appropriate ways and means of overcoming the difficulties hampering the organic development of the sector.

5. A Global Preparatory Meeting on Small- and Medium-Scale Enterprises including Co-operatives[3/] was also held at Tallinn, Union of Soviet Socialist Republics, from 14 to 16 March 1989, in order to advise the UNIDO Secretariat on the selection of the issues to be presented at the Consultation.

6. Studies have been prepared by the UNIDO Secretariat analysing the problems and constraints in the small- and medium-scale enterprise sector.

7. In the light of the conclusions and recommendations reached by the above-mentioned meetings, the experts identified the following issues connected with the development of the sector that should be considered by the First Consultation:

1/ "Report of the Industrial Development Board on the work of its second session, 13 to 23 October 1986" (GC.2/2), annex I, IDB.2/Dec.13.

2/ IPCT.68(SPEC.), IPCT.75(SPEC.) and IPCT.76(SPEC.).

3/ ID/WG.485/3(SPEC.).

Issue 1: Environment conducive to sustained growth of small- and medium-scale enterprises

(a) Integration of small- and medium-scale policies and strategies in overall development plans;
(b) Harmonization of macro-economic, fiscal, financial and other policies with incentive measures for small- and medium-scale enterprises;
(c) Creation of an appropriate environment and long-term government commitment as a priority in the development of small- and medium-scale enterprises;
(d) Establishment of institutions at the national level for entrepreneurship development programmes;
(e) Role of industrial co-operatives;
(f) Need for a single window agency for ensuring co-ordinated provision of inputs for small- and medium-scale enterprises;
(g) Role of associations of small- and medium-scale enterprises.

Issue 2: Productivity improvements

(a) Institutional infrastructure, extension service and industrial estates;
(b) Transfer and development of technology for small- and medium-scale enterprises;
(c) Marketing of small- and medium-scale enterprise products;
(d) Programme for subcontracting and enterprise-to-enterprise co-operation.

Issue 3: Financing of small- and medium-scale enterprises

(a) Policies and operational measures to improve access to institutional finance;
(b) Effective implementation of lending policies;
(c) Special windows for small- and medium-scale enterprise financing at national, regional and international levels;
(d) Innovations in collateral requirements;
(e) Availability of and access to financial resources for venture capital;
(f) Policy support systems and institutions to promote entrepreneurship among women.

Issue 4: International and regional co-operation

(a) Training;
(b) Transfer and development of technology;
(c) Financing of small- and medium-scale enterprises;
(d) Marketing.

AGREED CONCLUSIONS AND RECOMMENDATIONS

Preamble

8. The Consultation, appreciating the fundamental role of small- and medium-scale enterprises in economic development, considers that it is absolutely essential to use all available means to support individual initiatives designed to create and develop such enterprises.

9. The Consultation attaches prime importance to the development of the spirit of enterprise, which is dependent on the existence of an environment that is favourable to the growth and development of initiatives and the establishment of essential support structures.

10. The Consultation stresses the essential role to be played, nationally and locally, by professional associations and organizations, which should bear the main burden of mobilizing initiatives and organizing support activities. In this context, the role of the public sector, however decisive its importance, should rather be to provide back-up and support and to ensure a positive approach to small- and medium-scale enterprises on the part of all government departments.

11. The Consultation notes the importance for developing countries of being kept fully informed of the experience acquired in different countries with regard to small- and medium-scale enterprises. It considers that the exchange of information between the sectors concerned with small- and medium-scale enterprises in different countries should be encouraged.

12. The development of small- and medium-scale enterprises necessarily requires joint initiatives, with international co-operation, in such important areas as training, the transfer of techniques and technology, funding and the exchange of information. The Consultation considers that UNIDO, which already possesses wide experience in these areas, ought to play a catalytic role in all activities undertaken by the international community with regard to small- and medium-scale enterprises.

Issue 1: Environment conducive to sustained growth of small- and medium-scale enterprises

13. An appropriate economic environment is an essential prerequisite for the growth of small- and medium-scale enterprises in the developing countries. However, in several developing countries, even though the awareness for creating such an environment exists, necessary mechanisms either do not yet exist or are not sufficiently effective in providing incentives and co-ordinated inputs required for the growth of small- and medium-scale enterprises. In fact, in some countries macro-economic policies have a built-in bias towards large-scale industries. Thus, there is an urgent need for the harmonization of macro-economic, fiscal, financial and other policies with incentive measures for small- and medium-scale enterprises. However, macro-economic policy also implies economic and institutional measures to ensure the integration of small- and medium-scale enterprises into large-scale production, especially when the former are subcontracting parties to large enterprises.

Conclusions

14. The Consultation concluded that:

(a) Firm national commitment and will are required for the creation of an environment conducive to the growth of small- and medium-scale enterprises;

(b) There is an urgent need for putting in place appropriate national policies for the growth of the small- and medium-scale enterprise sector. Strategic planning should thus focus on integrating those policies in the overall macro-economic policy and national plans of the developing countries, taking into account the linkages between the small- and medium-scale enterprise sector and other sectors. Policies for the development of the micro-enterprise sector also deserve special attention;

(c) Non-governmental organizations, such as associations of small- and medium-scale enterprises, chambers of commerce, groups of producers, and federations of co-operatives have a vital role to play as key agents of change through institutionalized interaction with Governments. These institutions have an important contribution to make by providing effective support services to their members;

(d) There is an urgent need to establish a coherent national programme of action for the development of entrepreneurship including, inter alia, the suitable reorientation of programmes and policies for education and training so as to stimulate self-employment, the creation of small enterprises, and the growth of entrepreneurial culture which are crucial for the development of the small- and medium-scale enterprise sector;

(e) The effective harmonization of macro-economic, fiscal, financial and other policies with incentive measures is a vital necessity for the development of the small- and medium-scale enterprise sector;

(f) At the early stage of development of small- and medium-scale enterprises, a single-window agency for ensuring the co-ordinated provision of inputs is desirable. However, as the small- and medium-scale enterprise sector develops, the need for specialized services may necessitate having more institutions for meeting the requirements of different target groups. A single-window approach has a sharper relevance for assistance to the micro-enterprise sector;

(g) It is essential to set up a network of integrated and comprehensive packages of support measures, either through a single-window or multiple-window approach;

(h) As the development of the small- and medium-scale enterprise sector progresses, the role of small enterprise development organizations and associations should undergo a change, which will lead to greater involvement of the non-governmental sector initiatives in providing support services to small- and medium-scale enterprises.

Recommendations

15. The Consultation recommended that:

(a) A high-powered national body representing all concerned interests, including science and technology institutions and non-governmental organizations, entrepreneurs etc. and located at a sufficiently high level, should be set up in every developing country for formulating and co-ordinating the implementation of small- and medium-scale enterprise development policies and programmes. The macro-economic planning for integrating small- and medium-scale enterprise policies in overall economic policy and national plans will be through the effective participation of key agents of change, namely associations of small- and medium-scale enterprises etc. The high-powered body will also draw up, in close co-operation with associations of small- and medium-scale enterprises, a long-term plan for the development of the entrepreneurial culture. It should harmonize fiscal, financial and other policies with incentive measures required for the growth of small- and medium-scale enterprises;

(b) There should be a suitable reorientation, with the involvement of associations of small- and medium-scale enterprises, of policies and programmes for education and training for the development of entrepreneurial activities. Where appropriate, national institutions for intensifying entrepreneurship development programmes should be set up;

(c) The creation and development of associations of small- and medium-scale enterprises, artisans and craftsmen, including micro-enterprises, should be encouraged by establishing social, political and legal structures and institutions which would facilitate these processes. UNIDO may be requested to direct a greater proportion of its activities and programmes to the strengthening and operation of such associations;

(d) The development of groups of producers and co-operatives should be given particular importance with a view to making them an important vehicle in the promotion of the small- and medium-scale enterprise sector;

(e) With the gradual development of the small- and medium-scale enterprise sector, the role of the Government should be lessened to make way for greater non-governmental and private sector initiatives, such as those of associations and consultancy firms, in providing consultancy, extension and other support services for the small- and medium-scale enterprise sector. In order to optimize the delivery of a complete range of support and extension services for the small- and medium-scale enterprise sector, appropriate networking of the various institutions and associations may become necessary.

Issue 2: Productivity improvements

Conclusions

Modernization of small- and medium-scale enterprises

16. There is a need for the modernization of the small- and medium-scale enterprise sector with a view to improving productivity and quality. In that context, the Consultation concluded that:

(a) Innovative programmes of modernization need to be drawn up and implemented. Such programmes should not only be restricted to more modern equipment and processes but must also adequately cover the important task in the fields of training, education and information of bringing about necessary attitudinal changes;

(b) New schemes for the mobilization of finance required for the modernization of small- and medium-scale enterprises need to be worked out, for example in the areas of venture capital provision, leasing, access to capital markets etc.;

(c) For various reasons, the process of modernization needs to be carried out on a selective basis;

(d) Small- and medium-scale enterprise policies need to be reoriented so as to promote the process of growth and modernization in line with the level of development of the country concerned.

Institutional support measures

17. The Consultation concluded that:

(a) In order to bring about effective improvements in productivity and quality and the fuller utilization of capacities, small- and medium-scale enterprises must be provided with managerial and technological information and advice in such areas as training, marketing, sources of financing and maintenance. In this context, various national institutions and consultancy organizations (including those in the private sector) have a vital role to play;

(b) Networking of various institutions and associations of small- and medium-scale enterprises is required with a view to optimizing the results of the efforts for the modernization of the small- and medium-scale enterprise sector on a wide basis;

(c) Industrial estates with well-developed and properly managed common facility centres can be a valuable tool for the development of the small- and medium-scale enterprise sector, provided that their establishment is preceded by a proper demand and cost-benefit analysis. The establishment and maintenance of industrial estates offers possibilities for the private and co-operative sectors' involvement.

Transfer and development of technology for small- and medium-scale enterprises

18. The Consultation concluded that:

(a) As individual small- and medium-scale enterprises lack technical expertise and finance for the development of technology, there is need for collective research and development efforts for the small- and medium-scale enterprise sector. Linkages between research and development centres and small- and medium-scale enterprises need to be strengthened. The possibility of consortia of small- and medium-scale enterprises running such research and development centres could be considered;

(b) The latest information about the availability of technologies and the terms for their transfer are a vital necessity if the small- and medium-scale enterprise sector is to improve its productivity and quality in order to ensure competitiveness;

(c) There is considerable potential for small- and medium-scale enterprises in several countries to upgrade technology in newly emerging areas such as micro-electronics and biotechnology etc. However, their access to such technologies needs to be improved.

Marketing of small- and medium-scale enterprise products

19. The Consultation concluded that:

(a) In general, individual small- and medium-scale enterprises lack financial resources and technical expertise for marketing promotion activities in domestic and international markets. There is therefore a need for institutional support to develop marketing and sales promotion strategies and schemes, to collect and analyse market information in domestic and international markets and to make necessary business contacts by incurring promotional expenditures;

(b) Associations of small- and medium-scale enterprises, co-operatives and other institutions have a valuable role to play in providing assistance in marketing;

(c) Small- and medium-scale enterprises need to be provided with financial assistance through the establishment of market development funds for undertaking promotional tours abroad and making business contacts.

Programme for subcontracting and enterprise-to-enterprise co-operation

20. The Consultation concluded that subcontracting and enterprise-to-enterprise co-operation programmes have proved to be very useful instruments for the modernization of the small- and medium-scale enterprise sector in several developing countries and for broadening the market spectrum.

Recommendations

21. The Consultation recommended that:

(a) Comprehensive programmes of modernization of the small- and medium-scale enterprise sector should be worked out on a realistic basis and implemented whenever necessary with bilateral or multilateral assistance, taking into account the need for more modern production processes, including the training and attitudinal changes that are required for effective modernization. In this context, the creation or appropriate strengthening of institutional structures deserves urgent attention;

(b) Innovative schemes for the mobilization of finance, including venture capital required for modernization, should be encouraged;

(c) In accordance with national priorities and needs, the modernization of some identified subsectors should be taken up, initially on a selective basis in view of the scarcity of resources. For example, some subsectors in a particular developing country may need improvements in productivity and quality to cope with changed market requirements, and other subsectors may have good export potential;

(d) Small- and medium-scale enterprise policies should be formulated in such a way as to promote the process of growth and modernization in line with the level of development of the country concerned;

(e) For effective improvements in the performance of the small- and medium-scale enterprise sector, appropriate institutional mechanisms and consultancy organizations (including those in the private sector) should be promoted so as to ensure the delivery of the required range of services. Bilateral and multilateral technical co-operation agencies should offer assistance in this area, taking into account the local economic and other conditions;

(f) Depending upon the stage of development in the developing country and geographic and other requirements, networks of various institutions and consultancy organizations (including those in the private sector) should be established to optimize the results of the efforts to improve the performance of the small- and medium-scale enterprise sector;

(g) The establishment of industrial estates with well-developed and properly managed common facility and prototype centres should be considered on the basis of demand and cost-benefit analyses;

(h) Technology data banks that are updated on a continuous basis should be created in developing countries by both governmental and non-governmental organizations, and institutional arrangements and procurement systems should be reorganized to assist small- and medium-scale enterprises to acquire equipment, technology, prototypes, and designs in national markets. This would improve the performance of the small- and medium-scale enterprise sector;

(i) To ensure the proper development, adaptation and application of modern technologies, linkages between research and development centres, universities and small- and medium-scale industries should be strengthened;

(j) Various institutions, including co-operatives and associations, should be strengthened to provide support to small- and medium-scale enterprises in developing marketing strategies and schemes for domestic as well as international markets. This should include improvements in packaging and market-oriented product designs, the establishment of trade promotion centres and the publication of directories or newsletters on marketing. Export incentives such as sales tax exemption and foreign currency retention should be considered to enable entrepreneurs to import raw materials and spare parts etc.;

(k) Schemes for partial reservations for small- and medium-scale enterprises in government purchases and other such schemes should be considered for adoption in developing countries;

(l) Subcontracting and enterprise-to-enterprise co-operation programmes should be intensified with a view to improving productivity and quality as well as making fuller utilization of capacity in the small- and medium-scale enterprise sector in several developing countries. National Governments may consider setting up appropriate legal frameworks to regulate subcontracting with a view to safeguarding the interest of parties concerned. Support agencies should provide assistance, including the identification of opportunities for strengthening subcontracting between small- and medium-scale enterprises in developing countries and those in developed countries. To develop local and international subcontracting, it would be desirable to set up subconctracting exchanges.

Issue 3: Financing of small- and medium-scale enterprises

Conclusions

22. The Consultation concluded that:

(a) A political commitment is necessary for the development of the small- and medium-scale enterprise sector and for the provision of financing to it. Priority industrial subsectors can be selected to avoid spreading resources too thinly. There is not always sufficient co-ordination between the political and economic actors involved in the development of the sector. Policies need to be formulated to encourage special loan schemes and to strengthen the operations of development and commercial banks, which in several developing countries are experiencing a serious deterioration of their financial situation;

(b) Developing countries do not often provide adequate incentives and promotional measures to channel personal and community savings into productive investments. Such measures should start by mobilizing savings and must be consonant with the socio-economic environment of different countries. The setting up of co-operatives and groups of producers helps in mobilizing the savings of small entrepreneurs;

(c) In a number of developing countries, small- and medium-scale enterprises do not qualify for the better incentives granted to large-scale industries. This situation must be redressed. Incentive measures do not always reach the most deserving cases. In most developing countries, there is an absence of associations of entrepreneurs in the small- and medium-scale enterprise sector that can propose policies and programmes and obtain bargaining power in negotiations. Entrepreneurs are very often not aware of the financial and other assistance available and find difficulties in following procedures to apply for such assistance;

(d) Subsidized interest rates do not always provide an adequate incentive to promote small- and medium-scale enterprises and in fact may prove to be a disincentive to creating cost-consciousness among small entrepreneurs; they may also erode the resources of the banks. On the other hand, when financing institutions obtain their funds on the open market under conditions of high expected inflation rates, there is a tendency for interest rates to be relatively high for small- and medium-scale entreprises, especially in cases where the debt/equity ratio is also high;

(e) In many developing countries financial institutions cater to both large- and small-scale industry, thus not meeting the specific needs of small- and medium-scale enterprises. The time involved in processing loan applications is often extremely long, and the procedures are complicated. This is a result not only of the lack of capability of appraisal staff of banks but also of the inadequate information provided by applicants concerning feasibility studies. Small- and medium-scale entrepreneurs need training and assistance in identifying viable projects and preparing pre-investment studies that are acceptable to banks. Small- and medium-scale entrepreneurs are often unable to provide the collateral required by banks for the provision of loans for both fixed capital and working capital requirements;

(f) The problem of the availability of adequate collateral is crucial for the development of the sector, and in most countries the problem has defied solution. Many banks follow traditional policies and insist on collateral in the form of immovable property, which most small- and medium-scale entrepreneurs cannot provide. Several developing countries have established policies to mitigate the problem, for example by fixing the level of collateral up to a proportion of the loan or accepting a charge on equipment as security. Others have introduced possibilities for non-monetary financing to reduce the size of loans. Non-monetary financing includes, *inter alia*, hire purchase, the leasing of equipment and buy-back arrangements, with respect to fixed capital requirements, and compensation through producing for buyers who provide their own raw material, with respect to working capital. Joint ventures offer a possibility for the provision of fixed and working capital coupled with technical assistance, sourcing and financing of raw materials and, possibly, marketing;

(g) Some countries have set up credit guarantee funds to cover banks in providing credit to small- and medium-scale enterprises, which is considered risky. Most such funds have been established by Governments; the others are joint efforts by Governments, banks, other financial institutions and insurance companies. Premiums are normally passed on to beneficiaries by way of an additional percentage on loan interest rates. Obtaining loans covered by credit guarantee schemes is considered expensive, but it ensures access to needed capital;

(h) Mechanisms for equity support are necessary to assist in the promotion of small- and medium-scale enterprises. Activities in this sphere are receiving increasing attention at the national and regional levels. Private venture capital companies set up in some developing countries have had an insufficient impact on the development of the small- and medium-scale enterprise sector. They play a fundamental role in the development of partnerships and, their creation needs to be encouraged, particularly to facilitate the transfer of new technologies;

(i) Small-scale entrepreneurs also face foreign exchange risks in the repayment of principal and payments of interest on loans when they obtain loans from external lines of credit;

(j) Women entrepreneurs need support through special programmes.

Recommendations

23. The Consultation recommended that:

(a) Governments of developing countries should adopt and implement policies and strategies to ensure that financial and technical resources are mobilized to meet the development needs of small- and medium-scale enterprises. Such policies and strategies should encompass:

(i) Special attention and support measures for the rehabilitation of the financial situation of finance institutions through the establishement of adequate monetary policies with a view to giving the financing sector suitable incentives, permitting them to modify their credit policies in favour of the small- and medium-scale enterprise sector;

(ii) The formulation of incentive and promotional measures to mobilize savings with a view to channelling them to productive investments;

(iii) The provision of financing facilities in rural areas;

(iv) The strengthening of co-ordination among national small- and medium-scale enterprise support institutions and banks involved in the development of the sector;

(v) Support for small- and medium-scale enterprises through specific financial and fiscal incentives;

(vi) The dissemination of information on availsble financial and technical assistance schemes and services in order to increase the awareness among small entrepreneurs of their existence and of how to make use of them;

(vii) The establishment, enhancement and replenishment of credit guarantee funds, preferably in co-operation among the Government, banks and other institutions, to alleviate the problem of lack of collateral on the part of small- and medium-scale entrepreneurs. In principle, such funds should be self-financing and on a revolving basis;

(viii) The setting up of appropriate equity support mechanisms that include government involvement in order to ensure that these mechanisms achieve the objective of reinforcing the development of the indigenous small- and medium-scale enterprise sector;

(ix) The development and strengthening of subcontracting between large-scale enterprises and small- and medium-scale enterprises, with the assistance, in particular, of subcontracting exchanges;

(x) The adoption of adequate measures to cover entrepreneurs from undue foreign-exchange risks;

(xi) The provision of technical assistance, along with financing, in the identification of viable projects, pre-investment studies, choice of technology, procurement of equipment and industrial inputs, marketing, and general and technical management thoughout the life of the project;

(xii) The review of investment codes to facilitate the inflow of direct foreign investment;

(xiii) The promotion of associations of small- and medium-scale entrepreneurs;

(xiv) Special support programmes for the development of and assistance to women entrepreneurs, including the establishment of associations for them.

(b) Development finance institutions and commercial banks should:

(i) Adopt policies and undertake activities to meet the special needs of small- and medium-scale enterprises, including the opening of special windows;

(ii) Upgrade the capabilities of staff in the appraisal of projects and in advising entrepreneurs on technical and management matters;

(iii) Streamline procedures for the timely processing of applications for loans and introduce simplified standard forms and appraisals for very small enterprises;

(iv) Open branches in rural areas to mobilize savings and provide financial services on the spot to eliminate the physical and psychological distance between rural entrepreneurs and banks;

(v) Extend dialogue with small- and medium-scale investors to ensure that all parties obtain equitable treatment in financing transactions through optimum "financial engineering", which would encompass all technical and economic elements, along with a suitable financial package to ensure the success of projects;

(c) Concerning the problem of the provision of collateral for securing loans:

(i) Governments, financial institutions and banks should assume the risk in providing small loans to artisans and entrepreneurs in poverty areas where the personal merits of the micro-entrepreneur and the viability of the project should be accepted as "collateral". The same should apply to unemployed persons wishing to start their own small businesses, provided that their project is viable;

(ii) Governments, financial institutions, banks and beneficiaries, being the partners in the development of small- and medium-scale enterprise projects, should share responsibility for liabilities arising from defaults in credit guarantee schemes. The degree of liability of each partner should be defined on a case-by-case basis and in accordance with the socio-economic conditions of the country;

(d) For the definition and practical implementation of the policies and measures described in recommendations (a), (b) and (c) above, there should be close co-operation with local associations of entrepreneurs.

Issue 4: International and regional co-operation

Conclusions

24. The Consultation concluded that:

(a) Small- and medium-scale enterprises are a recognized focus of international development assistance. They contribute to the efficient utilization of human and material resources, the alleviation of poverty, integrated rural development and greater participation of private initiatives. The development of small- and medium-scale enterprises has consequently received priority and attention in bilateral and multilateral programmes. There is a need to co-ordinate financial and technical assistance for small- and medium-scale entreprises at the national level and to ensure favourable conditions for welcoming investors;

(b) The demand for external financial assistance and technical co-operation will grow in view of the crucial role that small- and medium-scale enterprises play in industrialization. Assistance is needed for the better utilization and expansion of traditional financing systems as well as for the creation of new and innovative financing mechanisms. As a prerequisite for increased financial aid, all efforts should be made with regard to a healthy financial system as well as with regard to devising innovative ways of channeling resources and securing better access to international financial institutions. UNIDO has an important role to play as a catalyst in promoting international co-operation in the development of small- and medium-scale enterprises and as a co-ordinator of efforts to this end;

(c) Developing countries need assistance targetted towards specific areas such as institutional support to promotion offices and expansion of reseach and development efforts, especially with regard to the adaptation and scaling down of technologies, the funding of pilot projects and the development of comprehensive consultancy services. They need information on sources of technology, equipment and raw material supplies;

(d) There are vast opportunities for South-South co-operation in the small- and medium-scale enterprise sector in such fields as the exchange of experience and information, joint-ventures based on bilateral agreements on production and trade, quality and standardization norms, and the training of entrepreneurs, managers, technologists and technicians in existing centres of excellence. Multilateral and bilateral donors should therefore, when necessary, provide the financial support for such South-South co-operation;

(e) Technical co-operation projects are crucial for: the reformulation of policies for the development of the small- and medium-scale enterprise sector in order to integrate it in national development plans; the creation of high-powered development councils to sensitize economic sectors and mobilize private sector initiatives in order to achieve national economic objectives and redress regional imbalances; the development of entrepreneurial and managerial skills; the review of functions of national institutions, including training institutions, to better face the challenges of the future and enhance North-South and South-South co-operation; the development of consultancy services; and the establishment of associations of small-scale entrepreneurs, including associations of women entrepreneurs;

(f) Groups of producers and co-operatives, including industrial co-operatives, constitute an efficient instrument for mobilizing community resources, for facilitating bulk purchases of agricultural and industrial inputs, and for transporting and marketing products. They also act as breeding ground for the development of leaders and entrepreneurs;

(g) National institutions and non-governmental organizations need to be fully involved as partners in the international co-operation efforts towards the development and promotion of small- and medium-scale enterprises;

(h) There is considerable scope for collaboration between large enterprises and small- and medium-scale industries to provide local solutions that are both appropriate and immediate and, furthermore, generate the necessary synergy to tighten the links in the nation's industrial structure.

Recommendations

25. The Consultation recommended that:

(a) Multilateral and bilateral donors should assign higher priority to the small- and medium-scale enterprise sector in view of its importance to the economic fabric of developing countries. In order to ensure that development assistance produces the maximum benefit and impact, co-ordinating mechanisms should be established at the national and global levels. At the national level, appropriate measures adopted and the initiative of national authorities should be encouraged to promote collaboration among international agencies (UNIDO, the Food and Agriculture Organization of the United Nations (FAO), the International Labour Organisation (ILO) etc.), donor organizations and representatives of small- and medium-scale enterprises. Initiatives of this kind should be undertaken in conjunction with the resident representative of the United Nations Development Programme (UNDP). At the global level, the first step should be to intensify the co-ordination of activities to benefit small- and medium-scale enterprises by international agencies, including international financial institutions, and to make regular joint appraisals of the result of such activities. UNIDO could call in experts to examine the implementation and monitoring of the conclusions and recommendations of the Consultation and the usefulness of setting up a permanent group to give advice on policies and programmes to assist small- and medium-scale enterprises, particularly at the regional level;

(b) The industrialized countries should facilitate the increased flow of financial and technical assistance to small- and medium-scale enterprises in developing countries with regard to the establishment of equity participation funds, guarantee the provision of systems and, in the case of organizations that have yet to do so, the opening of a special window to provide small- and medium-scale enterprises with accessible funding;

(c) By means of their associations, the future beneficiaries of programmes and projects should be able to participate in the identification and design thereof. Consequently, it is important that preference be accorded to local entrepreneurs' associations, which must play a part in assessing the requirements, developing the most appropriate ways of fulfilling the requirements and monitoring the effective use of assistance;

(d) UNIDO should initiate a dialogue with international and regional financial institutions with a view to establishing a structure or a programme of co-operation focused on strengthened financial and technical assistance;

(e) Priority consideration should be given to new forms and mechanisms for international technological co-operation in the fields of international subcontracting and enterprise-to-enterprise co-operation, in the development of alternative technologies, including the funding of pilot projects to demonstrate viability and profitability, and through assistance in the development of consultancy services to facilitate co-operation in the above areas. In their co-operation programmes, industrialized countries should provide information on institutional capabilities for training and research to developing countries and on sources of supply of technology and know-how to assist them in identifying, formulating and negotiating investment projects;

(f) Efforts should be made to maximize contacts with the entrepreneurs' associations in different countries, both industrialized and developing, to ensure that there is a flow of practical information on the various aspects of the situation of small- and medium-scale enterprises and to seek the most suitable forms of co-operation between similar organizations, above all with reference to the transfer of knowledge and the acquisition of professional capability, training, the organization of the small- and medium-scale enterprise sector and the identification of areas of co-operation or collaboration between enterprises;

(g) Developing countries should make increased use of the potential for South-South co-operation in view of the varying levels of industrialization and experience already available in several developing countries. The mechanisms and instruments that may be utilized for this purpose include:

(i) Exchange of experiences through the establishment of institutional information networks;

(ii) Preparation and dissemination of directories of sources of technology and equipment suppliers;

(iii) Promotion of joint-ventures, including in consultancy services;

(iv) Marketing, transportation and maintenance of machinery;

(v) Training, management and entrepreneurial development programmes.

Special consideration should be given in regional and subregional co-operation schemes to the special needs of the least-developed, land-locked and island developing countries. Regional development institutions, particularly the regional economic commissions of the United Nations, should play an important role in the development of programmes that respond to the above objectives in fostering the development of small- and medium-scale sector;

(h) The following should constitute the priority areas of technical co-operation in the light of the priorities and needs of the developing countries outlined above:

(i) Sensitization of Governments, associations of manufacturers, rural and urban communities to the priorities, policies and strategies conducive to the development of small- and medium-scale enterprises and enterpreneurial capabilities;

(ii) Development of national skills and institutional capabilities for the identification of projects and entrepreneurs and for training managers, technologists and technicians;

(iii) Assistance in policy and strategy formulation, in particular the integration and harmonization of micro-economic policies and incentive measures that are conducive to the development of small- and medium-scale entreprises;

(iv) Assistance in developing or strengthening institutional, infrastructural and promotional measures covering industrial estates, extension services, common service facilities, marketing, quality control and standardization.

UNIDO should act as catalyst among United Nations and bilateral agencies that provide technological co-operation to developing countries in the small- and medium-scale enterprise sector, inter alia, to strengthen their research and development facilities, to promote and distribute information on pilot projects, to develop consultancy services, to disseminate information on technology sources and to promote joint ventures. UNIDO should promote South-South co-operation in the above-mentioned fields as well as in the diffusion of quality and standardization norms and training of entrepreneurs, managers and technicians. UNIDO should also produce a directory of the various governmental and non-governmental organizations, as well as the specialized services of the international agencies involved in the development of small- and medium-scale enterprises, with a brief description of these units' main tasks. This ought to facilitate direct bilateral co-operation, promote fluid contacts among the various countries and optimize the duration and cost of co-operation of this type. The directory would be updated periodically. UNIDO could also produce a periodic summary of successful instances of bilateral co-operation. This would enable countries to benefit from it and to adapt it to their needs;

(i) Multilateral and bilateral institutions should provide financial support and technical assistance for the development of industrial co-operatives in the small- and medium-scale enterprise sector. UNIDO, ILO and the International Co-operative Alliance (ICA) should co-ordinate promotional and development activities in the industrial co-operative sphere in order to harmonize policies and programmes, avoid overlapping and optimize their available human and financial resources.

I. ORGANIZATION OF THE CONSULTATION

Opening of the Consultation

Statement by the President of the Chamber of Commerce at Bari

26. The President of the Chamber of Commerce at Bari drew attention to the advantages of small- and medium-scale enterprises, namely their flexibility and malleability and the fact that they helped develop small, competitive markets, provided growth and training and harnessed local human resources. Such enterprises were often preferable to large enterprises in a developing environment, as they were a more rational way of meeting the needs of local markets and economies and were a means of promoting gradual, integrated development. The creation of conditions favourable to their growth, however, would involve the co-operation of various actors at the public and private, economic and political, and national and international levels. In addition, support was necessary, which involved adequate legislation, finance, services, consultation and diplomatic collaboration. The President pointed out that the chamber system was well-placed to work towards the growth of small- and medium-scale enterprises. It drew on its own experience at home and abroad, and used that experience in support of development in the third world.

Statement by the Under-Secretary of State for Foreign Affairs

27. The Under-Secretary of State for Foreign Affairs pointed out that Bari was an important venue for a meeting on small- and medium-scale enterprises not only because of the growth of such enterprises in southern Italy but also in terms of development of that sector in the Mediterranean region. Italy was at the forefront in providing multilateral assistance through such international organizations as the United Nations, the World Bank and UNIDO, and it had devoted many resources to industrial development in developing countries. In that connection, Italy had established certain priorities. At the technical and organizational level, the country had learned from experience that assistance should be sufficiently flexible, geared to local abilities and capacities, and integrated within a development programme. At the regional level, the country's priority was development within the Mediterranean area, but assistance was also being targeted to Africa south of the Sahara, Asia and Latin America. One demanding problem, he said, was to find rational means of making the best use of resources, but there was also a need to pave the way for trade and put an end to protectionism. In addition, future development co-operation must safeguard human needs and promote self-reliance and autonomous expansion. Small- and medium-scale enterprises were a key element in such development, and the Consultation constituted an important milestone for global initiatives in that area.

Statement by the President of the Institute for International Economic Co-operation and Development

28. The President of the Institute for International Economic Co-operation and Development (ICEPS) stated that the Institute had closely followed the subject of the development of small- and medium-scale enterprises. It was convinced that it was not sufficient to create huge industrial complexes and leave them in place; it was rather the human element, the local entrepreneur who made use of human resources, who expanded industrial development. Italy, he said, characterized the benefits small- and medium-scale enterprises could

bring; the industrial structure of the country had improved owing, inter alia, to the thousands of small- and medium-scale enterprises that had been set up throughout the country over the last 20 years. It had become clear from the experience in southern Italy, however, that copying patterns of industrialization from the north was not effective. Instead, such industries as crafts and tourism were being promoted. Developing countries, likewise, should not copy developed countries but should develop industries that were geared to local natural and human resources. He hoped that the result of the Consultation would be to boost small- and medium-scale enterprises that would constitute endogenous, self-reliant models of development.

Statement by the Director-General of UNIDO

29. The Director-General of UNIDO, after expressing his thanks to the Government and people of Italy for their hospitality in hosting the Consultation Meeting, stated that Bari, as a gateway and centre of industrialization in southern Italy, was a fitting venue for the Consultation on Small- and Medium-Scale Enterprises including Co-operatives. The importance of the sector in the development of a country's industry was well recognized. Therefore, UNIDO had been devoting particular attention to small-scale industries as well as to rural industries, especially in the context of integrated rural development programmes, with over 75 projects currently under implementation in developing countries. Enterprise-to-enterprise co-operation had also featured prominently in recent trends of technical co-operation. The strategic and critical role of small- and medium-scale industries, which contributed 10 to 20 per cent of industrial output and absorbed 40 to 60 per cent of industrial employment, stemmed from the fact that they often operated more efficiently at competitive costs for relatively limited local markets. They also had the capacity to adopt and apply advanced technology and permitted a pattern of production appropriate for meeting industrial decentralization objectives. Since the sector's economic contribution was generated by thousands of enterprising men and women, the right environment would unleash their private initiative, entrepreneurial spirit and talent. To be effective, such an environment should be supplemented by a coherent programme of support measures. The Director-General concluded by expressing his conviction that the exchange of experience accumulated by the participants at the Consultation would guide UNIDO as well as Governments in implementing measures to improve the development of the small- and medium-scale enterprise sector for the benefit of individual enterprises.

Election of officers

30. The following officers were elected:

Chairman:	Giuseppe Jacoangeli (Italy), Former Ambassador and Collaborator of the Director of Economic Affairs at the Ministry of Foreign Affairs

Rapporteur:	John Edward Garcia (Trinidad and Tobago), Second Vice-President, Credit Union Bank, General Manager, County Council Employees Credit Union Corporation
Vice-Chairmen:	François Xavier Eloundou (Cameroon), Directeur des petites et moyennes entreprises et de l'artisanat, Ministère du développement industriel et commercial
	Ervin Ernst (Hungary), Managing Director, Commercial and Credit Bank Ltd.
	Mahanum Itam (Malaysia), Deputy Director, Industries Division, Ministry of Trade and Industry

Adoption of the agenda

31. The Consultation adopted the following agenda:

1. Opening of the Consultation
2. Election of Chairman, Vice-Chairmen and Rapporteur
3. Adoption of the agenda and organization of work
4. Presentation of the issues by the UNIDO Secretariat
5. Discussion of the issues:

Issue 1: Environment conducive to sustained growth of small- and medium-scale enterprises

(a) Integration of small- and medium-scale policies and strategies in overall development plans;
(b) Harmonization of macro-economic, fiscal, financial and other policies with incentive measures for small- and medium-scale enterprises;
(c) Creation of an appropriate environment and long-term government commitment as a priority in the development of small- and medium-scale enterprises;

(d) Establishment of institutions at the national level for entrepreneurship development programmes;
(e) Role of industrial co-operatives;
(f) Need for a single window agency for ensuring co-ordinated provision of inputs for small- and medium-scale enterprises;
(g) Role of associations of small- and medium-scale enterprises.

Issue 2: Productivity improvements

(a) Institutional infrastructure, extension service and industrial estates;
(b) Transfer and development of technology for small- and medium-scale enterprises;
(c) Marketing of small- and medium-scale enterprise products;
(d) Programme for subcontracting and enterprise-to-enterprise co-operation.

Issue 3: Financing of small- and medium-scale enterprises

(a) Policies and operational measures to improve access to institutional finance;
(b) Effective implementation of lending policies;
(c) Special windows for small- and medium-scale enterprise financing at national, regional and international levels;
(d) Innovations in collateral requirements;
(e) Availability of and access to financial resources for venture capital;
(f) Policy support systems and institutions to promote entrepreneurship among women.

Issue 4: International and regional co-operation

(a) Training;
(b) Transfer and development of technology;
(c) Financing of small- and medium-scale enterprises;
(d) Marketing.

6. Drawing-up of conclusions and recommendations

7. Adoption of the report of the Consultation

Establishment of working groups

32. The Consultation established two working groups to discuss the issues and to propose conclusions and recommendations for consideration at the final plenary. François Xavier Eloundou (Cameroon) chaired the working group on issues 1 and 2 and Ervin Ernst (Hungary) chaired the working group on issues 3 and 4.

Statement by the Chairman of the Consultation

33. The Chairman of the Consultation, after thanking the meeting for the confidence placed in him, stressed that economic development could only be successful if it were a result of the combined and co-ordinated efforts of all sectors of society; therefore, a growing number of small- and medium-scale enterprises could be an efficient instrument in promoting greater participation of all sectors of society in the process of economic development. In Italy, he explained, small- and medium-scale enterprises constituted the backbone of industry; such enterprises could likewise be an effective instrument in promoting industrial and economic development in developing countries. He noted that the world economy was characterized by certain problems that affected the developing countries in particular, for example mounting debt burdens, depressed commodity prices, restrictive trade practices and erratic currency fluctuations, and that there was a need for new instruments to deal with such problems. It would be up to the Consultation to consider the full possibilities of small- and medium-scale enterprises and to recommend the most effective ways and means of developing that sector.

Statement by the Director of the System of Consultations Division, UNIDO

34. The Director of the System of Consultations Division stated that the System's primary preoccupation was with the process of industrialization capable of fostering an environment in which investment projects led to net economic benefit and promoted self-sustaining growth. In that context, small- and medium-scale enterprises played an important role as an effective agent of economic transformation and industrial development and provided a breeding ground for entrepreneurial skills. He pointed out that there was no dearth of people in the developing countries with the drive, energy and foresight to exploit the many investment opportunities offered by the sector. The problem, rather, was how to overcome inertia, to break barriers and to change attitudes in society and government in order to unleash the latent forces of the people and promote entrepreneurship. To develop and sustain a vibrant small- and medium-scale enterprise sector in the developing countries, however, two prerequisites must be fulfilled, namely early profitability and self-sufficiency with respect to foreign exchange resources. Those conditions reflected two well-known phenomena presently dominating development thinking, namely the mounting debt burden of developing countries and the trend towards privatization.

35. The Director concluded by drawing the attention of the participants to the discussion papers (ID/WG.492/4-7), which elaborated the four issues in detail, and particularly to the sections entitled "final considerations" which presented a practical framework for discussions in the working groups and in the formulation of conclusions and recommendations.

Documentation

36. The documents issued prior to the Consultation are listed in annex II.

Adoption of the report

37. The report of the First Consultation on Small- and Medium-Scale Enterprises including Co-operatives was adopted by consensus at the final plenary on 13 October 1989.

II. REPORT OF THE PLENARY SESSIONS

38. All speakers expressed confidence in UNIDO, commending the Organization on the fine job done in preparing for the meeting. They were also very happy with the selection of the venue and the reception accorded by the host country. In addition to complimenting the officers on their election the following points were made.

39. As a general introduction, many participants gave a summary of the potential for or factors inhibiting the development of small- and medium-scale enterprises in their countries. In many developing countries, industrial policies were undergoing profound changes in favour of the private sector, particularly through the creation and promotion of small- and medium-scale enterprises. That trend towards economic pragmatism was very encouraging, among others because it offered vast opportunities for co-operation. The growing realization of the importance of small- and medium-scale enterprises in both the generation of national economic output and the creation of employment was noted by some participants. In one case, the number of small- and medium-scale enterprises had increased by a factor of 10 over a 25-year period. A participant from a centrally planned economy country gave a description of the new policy measures being pursued and enacted in his country with respect to the national economy. The promotion of private-sector small- and medium-scale enterprises in many industrial sectors and particularly in agriculture was a cornerstone in those efforts.

40. Attention was drawn to the vastly different needs of developing countries; some countries might require highly specialized small- and medium-scale enterprises using advanced technologies, while less developed countries, where the economic tissue was not closely woven, might need less advanced technologies. In all cases, however, small- and medium-scale enterprises could make a tangible contribution to economic development, to the mobilization of domestic savings and to the creation of employment. It was generally agreed by the participants that the subject of small- and medium-scale enterprises was extremely complex and that there were no straightforward remedies, such as the allocation of funds or enhanced training of entrepreneurs, to the constraints affecting the sector. When contemplating the creation or promotion of such enterprises, a whole array of interacting factors had to be taken into consideration on a case-by-case basis.

41. A number of essential conditions for the successful operation of small- and medium-scale enterprises in the developing countries were identified as the promotion of the spirit of enterprise; the need for a favourable environment; the existence of socio-professional structures; the right attitude of authorities; adequate training facilities; and, finally, easy access to financing circuits.

42. Participants felt that one of the many prerequisites for the economic and financial viability of small- and medium-scale enterprises was professionalism of both management and support services; in that connection, the need for training was emphasized. A participant from a developing country argued that highly qualified people often sought employment in the public sector, which by tradition was considered to confer social status. Therefore, there was a dire need to overhaul educational systems in order to promote the spirit of enterprise needed to create small- and medium-scale enterprises.

43. Reference was made to the difficulties encountered in securing funds from financial institutions and intermediaries for the creation and operation of small- and medium-scale enterprises. In spite of the fact that concessional loans were being advocated for small- and medium-scale enterprises, international and regional financing institutions clearly discriminated against the establishment of those enterprises in favour of large-scale industrial and investment projects. Since the key role of small- and medium-scale enterprises as effective agents for industrial transformation was generally acknowledged, the stance taken by the banks was difficult to comprehend.

44. One of the key factors in productivity improvement in the operations of small- and medium-scale enterprises was considered to be quality control, which led to greater market potential. In that context, it was reported that in one developing region the deteriorating economic climate was reflected in the lack of competitiveness of small- and medium-scale enterprises. That made it impossible for those enterprises to gain a greater market share; in fact, the opposite was happening. Another obstacle was the growing difficulty in identifying viable projects in the small- and medium-scale enterprise sector that would lend themselves to international co-operation.

45. The representative of the International Association of Crafts and Small- and Medium-sized Enterprises (IACME), after congratulating the UNIDO Secretariat on the quality of the documents submitted to the Consultation, described the dynamic development in the recent activities of the Association. With the involvement and assistance of international agencies such as UNIDO, the Association could further expand the scope of its priorities, thus continuing to make a substantive contribution to the development of the small- and medium-scale enterprise sector in both developed and developing countries.

46. The representative of the World Assembly of Small and Medium Enterprises (WASME) touched on the main themes outlined in the issue papers such as the environment conducive to the growth of small- and medium-scale enterprises, productivity improvement, financing, the role of associations of small- and medium-scale enterprises and, finally, international co-operation. He formulated a number of suggestions to effectively assist the small- and medium-scale enterprise sector in the developing countries, including the following: a clear and unambiguous definition of development and industrial policies with respect to small- and medium-scale enterprises; the creation of national commissions on the establishment and promotion of small- and medium-scale enterprises in developing countries; an in-depth assessment of the role of women in the sector; and the creation of a specialized department on small- and medium-scale enterprises in international agencies such as UNIDO. He promised to elaborate further on those issues in the working groups. In order to put those concrete measures into practice, WASME offered its considerable experience and know-how to all concerned in the developing countries and to international organizations.

47. Participants expressed their support of the activities of the System of Consultations. The System of Consultations had made a tangible contribution to the formulation of sectoral industrial development policies and strategies in member countries. Participants stressed the relevance of holding the Consultation at a time when a profound reappraisal of the role of the sector in self-sustained industrial growth was taking place.

48. The Chairman, in concluding the plenary session, summed up the statements made by participants, noting that the common theme was the widespread recognition of the importance of small- and medium-scale enterprises in fostering a country's economy. The invaluable experience of each country enriched the quality of the debate and would lead to the formulation of recommendations capable of promoting the vital small- and medium-scale enterprise sector.

III. REPORT OF THE WORKING GROUP ON ISSUES 1 AND 2

Issue 1: Environment conducive to sustained growth of small- and medium-scale enterprises

49. Several participants emphasized the need for creating an appropriate environment for the growth of small- and medium-scale enterprises in the developing countries. In that connection, strategic planning that was focused on the integration of policies for the promotion of small- and medium-scale enterprises within an overall macro-economic policy framework and national plans was considered to be essential. Some participants drew attention to the need for a reorientation in the educational and training systems in the developing countries in order to encourage more rapid growth of small- and medium-scale enterprises. The problem of a bias towards large industries in the industrial, trade, fiscal and financial policies in many developing countries was also mentioned. The elimination of such biases was considered essential so that small- and medium-scale industries would have a healthy environment for their growth. It was emphasized by several participants that specific policy initiatives were necessary for the effective growth of the micro-enterprise sector, thereby leading to a balanced development of the whole continuum, from micro-enterprises to the large sector. It was recognized that associations of entrepreneurs had a vital role to play in the formulation of programmes and policies for small- and medium-scale enterprise development.

50. Countries should make a firm commitment to create an environment conducive to the setting up and development of small- and medium-scale enterprises, inter alia by: (a) establishing infrastructures adapted to their needs (electricity, water, access, telephone lines etc.); and (b) guaranteeing stable conditions for private investment.

51. Concern was expressed about the need for the effective implementation of small- and medium-scale enterprise policies and programmes, and several participants suggested that a high-powered national body should be set up for that purpose. Such a body should co-ordinate and monitor both the formulation and implementation of programmes and policies and the delivery of inputs for the growth of small- and medium-scale enterprises. To ensure effective co-ordination between various institutions (governmental as well as non-governmental), it was essential for the body to be sufficiently high powered.

52. The prominent role of entrepreneurs in small- and medium-scale enterprise development was highlighted. In that context, the need for intensifying entrepreneurship development programmes was emphasized. It was also suggested that national institutes should be set up to conduct such programmes in order to stimulate the growth of entrepreneurial culture, which was crucial for the development of the small- and medium-scale enterprise sector.

53. The need for setting up effective institutional mechanisms to provide delivery of a complete range of support services to small- and medium-scale enterprises was also emphasized. It was pointed out that government-run small industry development organizations often tended to become unwieldy and bureaucratic. There was therefore a need to introduce institutional mechanisms on a regional or local basis, taking into consideration the specific requirements of various countries. It was also suggested that local self-help and grass-root institutions should be upgraded so that they could play an effective role in the promotion of small- and medium-scale enterprises. That was especially emphasized in the context of the micro-enterprise sector.

54. Several participants drew attention to the success of industrial and service co-operatives in providing support in marketing and the procurement of raw materials and even in providing technical consultancy and extension services.

55. Associations of small- and medium-scale enterprises and chambers of commerce had a vital role to play in the development of the small- and medium-scale enterprise sector. It was therefore felt that the catalytic role played by the Government at the initial stage in the development of small- and medium-scale enterprises should gradually give way to such non-governmental and private-sector initiatives.

56. It was pointed out that for small-scale entrepreneurs, especially in micro-enterprises, a single window for the delivery of all inputs was desirable. As development proceeded, however, a greater need for specialized services could arise, depending upon the degree of development in specific countries. At that stage, a multiplicity of institutions could be considered. In that context, the question of networking of institutions, associations and private-sector consultancy organizations with a view to optimizing the delivery of inputs to the small- and medium-scale enterprise sector on as wide a basis as possible was also discussed.

Issue 2: Productivity improvements

57. Several participants emphasized the need for modernizing the small- and medium-scale enterprise sector with a view to improving productivity and quality as well as making fuller use of capacities through product adaptation and better designs etc. The need for evolving comprehensive and innovative strategies and programmes for the modernization of the small- and medium-scale enterprise sector was highlighted. It was considered essential that such schemes should incorporate measures to bring about necessary attitudinal changes, in addition to modern production processes and training etc. It was also pointed out that policies for small- and medium-scale enterprises needed suitable reorientation so as to ensure that the process of growth and modernization was not inhibited.

58. Concern was expressed by some participants about the mobilization of finance, including venture capital etc., required for the modernization of small- and medium-scale enterprises. It was felt that, in view of the scarcity of resources, the programme of modernization should be carried out on a selective basis so that some well-identified subsectors could be taken up to start with, depending on the needs and priorities of the developing country concerned. For example, some subsectors might have better potential for wider domestic and international markets.

59. The important role of various national institutions and consultancy organizations (including those in the private sector) in providing a complete range of support services to small- and medium-scale enterprises was discussed. It was pointed out that such institutions needed to be promoted or strengthened wherever they existed so as to be able to provide small- and medium-scale enterprises with managerial and technological advice, including advice on training, marketing, sources of financing etc. The need for bilateral and multilateral assistance in that area, taking into account local economic and other conditions, was also highlighted. Networking of various institutions and associations of small- and medium-scale enterprises was required with a view to optimizing the improvements in the performance of the small- and medium-scale enterprise sector on a wide basis, depending upon the stage of development and geographic and other requirements.

60. Several participants praised the role of industrial estates as a valuable tool for the development of the small- and medium-scale enterprise sector. However, some participants stated that the results were mixed. In that context, the question of a feasibility study preceding the establishment of an industrial estate was also raised. It was also stated that the establishment and maintenance of industrial estates offered possibilities for the role of the private sector and co-operative institutions.

61. Some participants pointed out the need for collective research and development efforts in the development of technologies for the small- and medium-scale enterprise sector, since individual small- and medium-scale enterprises lacked technical expertise and finance required for that purpose. The need for strengthening the linkages between research and development centres and small- and medium-scale enterprises was stressed. The possibility of consortia of small- and medium-scale enterprises running such centres was also indicated.

62. Several participants emphasized the necessity for better access of small- and medium-scale enterprises to the latest information about the availability of technologies and their terms of transfer. In order to facilitate the task of sourcing technologies and equipment, data banks needed to be established in the developing countries.

63. Since individual small- and medium-scale enterprises lacked financial resources and technical expertise for marketing promotional activities in the domestic and international markets, the need for institutional support in developing marketing and sales promotion strategies and schemes was emphasized. Associations of small- and medium-scale enterprises, co-operatives and other such institutions were mentioned as valuable instruments for marketing promotion.

64. Several participants praised the valuable contribution made by sub-contracting and enterprise-to-enterprise co-operation programmes in improving productivity and quality resulting in the widening of domestic and international markets. It was therefore urged that those programmes should be intensified.

IV. REPORT OF THE WORKING GROUP ON ISSUES 3 AND 4

Issue 3: Financing of small- and medium-scale enterprises

65. Following the introduction of the issue paper on issue 3 (ID/WG.492/6), several participants stressed that the concepts of financial arrangements needed to be re-examined and called for new approaches to be found to give priority to small- and medium-scale enterprises in meeting their financial needs. A number of participants described the services offered by agencies in their countries to support the small- and medium-scale enterprise sector as examples of the types of mechanism that had been useful in promoting the development of the sector. Each country had to find its own solutions, however, based on its particular situation.

66. It was pointed out that, while timely and adequate financing was very important, it needed to be viewed as part of a total package of measures to assist small- and medium-scale enterprises that could also include, for instance, assistance in project preparation and the provision of extension services. Technical co-operation was seen as being complementary to financial assistance. The two types of co-operation should be linked and should include training and monitoring, advice on market trends, choice of technology and on the preparation of financing applications and guidance on appropriate financial sources. Some participants felt that banks should provide such services as part of the financing package, while others felt that small- and medium-scale development and promotion institutions would be in a better position to provide such assistance.

67. Some participants said that financial resources were available but that the real problem was the access of small- and medium-scale enterprises to financial institutions. One participant mentioned the physical and psychological distance to be overcome in order for small- and medium-scale enterprises to have access to credit. The representative of WASME indicated that financing did not usually reach the smallest of the small industries. Entrepreneurs needed to have information on financing possibilities. The time factor involved in obtaining finance was also considered to be critical. Too much time was often spent in project appraisal, and procedures for loan approval could be simplified.

68. The view was expressed that the volume of financial resources was adequate but that the problem was a lack of good projects. There was therefore a need for well-prepared feasibility studies. The concept of "financial engineering" introduced by one participant would facilitate more comprehensive project preparation and implementation.

69. It was proposed that small-scale entrepreneurs could form associations, which would place them in a position not only to negotiate more equitably with banks but also to influence policy-making. Networks of chambers or associations could also provide support services, but it was noted that chambers of commerce in developing countries would themselves need assistance. One participant, while recognizing the value of those associations, cautioned that information regarding the actual purpose of co-operatives or associations should be fully transparent in order to avoid resistance from political circles.

70. Entrepreneurs with very small enterprises had particular difficulties in obtaining credit, and more concessionary types of financing were needed for that group. It was suggested that a standard format for presenting small projects could be useful.

71. There was a lively discussion on the issue of collateral requirements. Some participans believed that collateral was necessary to cover a bank's risk, while a number of others felt that very small-scale entrepreneurs deserved special treatment since they lacked property as collateral. One participant said that the viability of the project was sufficient guarantee; another noted that experience had shown that the informal sector had a better record of repayment.

72. The debate on collateral centered on who should bear the cost of guarantees and providing collateral. Some participants felt that the cost of providing a guarantee fund should be subsidized, while others felt that entrepreneur should share it. Another view was that the cost of collateral and guarantees could be shared on a tripartite basis between banks, the State and the entrepreneur. Several participants mentioned that industrial guarantee funds through Governments, banks and other financial institutions were working well in their countries for the benefit of small- and medium-scale enterprises.

73. The types of financing available were discussed, and some participants felt that the lack of working capital was the most critical problem. The importance of involving the banks from the very beginning, i.e. at the project preparation stage, was mentioned. One participant referred to an unemployment compensation scheme whereby the funds could be used to establish small enterprises.

74. Non-monetary financing was seen as an important source of working capital for small enterprises, including leasing of equipment, buy-back arrangements and production directly for buyers who provided working capital in the form of raw material and advance payments.

75. The availability and use of private savings as a source of finance was mentioned by one participant, while another pointed to a problem of the outflow of savings from the country and said that the political and economic environment was an important factor.

76. Some participants expressed the need for a national equity fund to promote small- and medium-scale enterprise development. Others noted that venture capital funds in existence were not meeting the needs of small- and medium-scale enterprises.

77. Measures were necessary in some countries to provide mechanisms for the procurement by government enterprises of goods produced by small- and medium-scale enterprises. The establishment of subcontracting exchanges was also proposed. The need was also recognized for providing measures to mitigate undue foreign exchang. risks experienced by entrepreneurs.

78. One participant called for a continuous and structured day-to-day dialogue between financing institutions and trade promotion organizations as well as technical assistance agencies dealing with the small- and medium-scale enterprise sector.

79. It was recognized that there was a need for a package of support systems specifically for women entrepreneurs which would include exposure to marketing and improvement of product quality. In addition, attention should be given to fostering the establishment of associations of women entrepreneurs. One participant described the special incentives, including concessionary financing, being given to women entrepreneurs in his country.

Issue 4: International and regional co-operation

80. UNIDO was seen as having a vital catalytic role in the development of the small- and medium-scale enterprise sector as a source of both information and technical co-operation. It was suggested by a number of participants that a catalogue of sources of bilateral and multilateral technical and financial assistance available for small- and medium-scale industries should be published.

81. A number of participants stressed that national and international institutes as well as non-governmental institutions had a role to play in co-operation with small- and medium-scale enterprises.

82. The importance of the role of industrial co-operatives was stressed, and it was felt that international co-operation with industrial and craft co-operatives should be extended in the various regions.

83. Enterprise-to-enterprise co-operation in the form of technology transfer and joint ventures had become an increasingly important form of international co-operation between industrialized and developing countries. In order to facilitate that kind of co-operation, a number of participants noted that government intervention, encouragement and support to enterprises in the industrialized countries was necessary to convince entrepreneurs of the advantages and opportunities accruing from co-operation with enterprises in developing countries. At the same time, support from the host Government in developing countries was seen as essential in creating the proper environment to attract investment and enabling it to flourish. A number of countries also reported on their successful experience in South-South co-operation.

84. The usefulness of carrying out thematic or self-evaluation studies of technical co-operation projects for small- and medium-scale enterprises was noted by some participants. Such studies would pinpoint the successes as well as failures so that other developing countries could benefit from similar experience.

85. While there was agreement in general terms with regards to the creation of special windows in international financial institutions, a number of participants disagreed on the question of concessionary interest rates.

86. One participant stressed that financial institutions in developing countries needed to be strengthened so that they could better deliver support to small- and medium-scale industries.

87. Technology exchange and development programmes for the small- and medium-scale industry sector were seen as being important, particularly at the grass-root level of intermediate technology.

88. One participant said that the aim of technical co-operation was to promote individual initiative that would lead to the setting-up of small- and medium-scale enterprises in developing countries.

89. The representative of the Economic and Social Commission for Western Asia (ESCWA) indicated that more attention needed to be given to co-operation at the regional level in developing programmes to assist small enterprises particularly benefiting smaller countries and promoting South-South co-operation.

90. The representative of WASME emphasized the importance of enterprise-to-enterprise co-operation. He suggested that the United Nations Educational, Scientific and Cultural Organization (UNESCO) should be included in global mechanisms for the development of small- and medium-scale enterprises in view of its involvement in the education of future entrepreneurs, managers, engineers and technicians. WASME was in favour of the establishment of specialized financial institutions for the small- and medium-scale enterprise sector, data bases for the dissemination of information of relevance to small- and medium-scale enteprises and the promotion of associations of small and medium entrepreneurs. He felt that such associations should receive technical assistance. Donor agencies should provide assistance to small- and medium-scale enterprises on a priority basis, especially to those in least-developed, land-locked and island economies. He emphasized the contribution being given to the sector by non-governmental organizations. He recommended the setting-up of a committee of experts to advise UNIDO on the promotion and development of small- and medium-scale enterprises. He also suggested that UNIDO activities in that area should be centralized within the Organization. He supported the UNIDO proposals for the promotion of international and regional co-operation in the field of small- and medium-scale enterprises.

91. The representative of ICA stated that industrial co-operatives provided an excellent area for co-operation between centrally planned and market economy countries. However, he said, the co-operative movement was extremely well established in Western industrialized countries, and that also provided excellent opportunities for co-operation in a North-South dimension. The co-operative movement was a very important instrument for social and economic development and, as such, it should attract financial and technical assistance from donor agencies.

92. The representative of IACME insisted that small- and medium-scale enterprises should have access to United Nations and other international organizations, such as the Organisation for Economic Co-operation and Development (OECD), the European Economic Community (EEC) as well as to bilateral agencies. He recommended that such organizations should concentrate and co-ordinate their efforts for the development of the small- and medium-scale enterprise sector. He believed that international organizations had not made sufficient efforts to adapt credit guarantee schemes successfully operating in industrialized countries to socio- economic conditions in developing countries.

93. The representative of the International Centre for Advanced Technical and Vocational Training spoke of the need to professionalize small- and medium-scale enterprises, to provide services to small- and medium-scale enterprise associations, and to adapt training curricula and methods to actual needs. He also proposed that support should be given to promote enterprise-to-enterprise co-operation.

Annex I

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Annex II

LIST OF DOCUMENTS

Discussion documents

Issue 1: Environment conducive to sustained growth of small- and medium-scale enterprises	ID/WG.492/4
Issue 2: Productivity improvements	ID/WG.492/5
Issue 3: Financing of small- and medium-scale enterprises	ID/WG.492/6
Issue 4: International and regional co-operation	ID/WG.492/7

Background documents

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